



*Debt Management in a changing Market  
and Regulatory Environment*

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# Debt Management in Changing Environment



- Issuers should be aware of how developing market and regulatory changes can impact their debt management practices
  - Interest rate environment/outlook
  - SEC regulations
  - Investor preferences
- Proactive assessment of changes and flexibility in identifying and implementing appropriate responses can position issuers to adapt to changes, while continuing to meet debt management objectives
  - Structure of debt instruments
  - Post-issuance procedures

# *Municipal Advisors*

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- Typical services provided to City of San Diego
  - Advice on the issuance of municipal securities
  - Investment of proceeds and recommendation of escrow investments
  - Preparation of feasibility studies, tax or revenue projections, or similar products in connection with offerings
  
- Measures City has taken to increase accountability
  - Expectation of sound and superior advice bringing value added
    - Contracts spell out expectations upfront
  - Staff monitor activities and the contract scope diligently
  - Certifications

# *Municipal Advisors*

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- Future RFP Processes
  - Compliance with SEC registration
  - Performance of fiduciary duty

# Changing Environment - Short term Paper



- City of San Diego accesses short term markets for its TRAN offerings
- City performs cost analysis to determine if more cost effective to borrow 12-13 months, or pay down TRANs as property taxes are received
- 2009:
  - Considered cost analysis and evolving investor preferences
  - \$124 million FY 2010 TRANS structured in three series

- Series A	12/31/2009	\$ 18 million
- Series B	01/29/2010	\$ 56 million
- Series C	04/30/2010	\$ 50 million

# *City of San Diego - FY 2011 TRANS*

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- 2010 – Similar considerations
  - SEC instituted Rule 2a-7 with respect to money market funds, resulting in shorter maturity limits for the funds
  - Since investment earnings were expected to be less than the interest cost, more cost effective to pay down in tranches
- Notes structured as three maturities, with final maturity of May 31, 2011
- \$163 million FY 2011 TRANS structured in three series

– Series A	1/31/2011	\$ 51 million
– Series B	4/29/2011	\$ 43 million
– Series C	5/31/2011	\$ 69 million
- Maturity dates selected to provide strong debt service coverage on each series

# Disclosures - Rule 15c2-12

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- Noticing Requirements
  - Notice of occurrence of 11 specific events
  - If issuer deems the events “material”
  - Notice in a timely manner
  
- Rule Amendment
  - May 2010
  - Compliance date December 1, 2010
  - Increased to 15 events
  - Notice not in excess of ten business days
  - Removes materiality determination for 6 of 11 existing events
  - Amended language of event item 6 - tax status of the security

# *Municipal Securities - Disclosures*



- Additional 4 events
  - Tender offers
  - Bankruptcy, insolvency, receivership, or similar event
  - Consummation of a merger, consolidation, acquisition, and sale of all or substantially all assets (if material)
  - Appointment of successor or additional trustee, or the change of name of a trustee (if material)
  
- Expands the Rule to include Variable Rate Demand Obligations (VRDOs) municipal securities

## *Next Steps for the City*

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- Inform/review roles and responsibilities with City Staff
- Ongoing Disclosure Training and reinforcement – Muni Code Requirement
- Update process for continuous monitoring of all market events
  - Events that require pro-active monitoring include:
    - Principal and interest payment delinquencies
    - Non-payment related defaults
    - Rating Changes
- Establish thresholds for determining materiality where applicable